

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8755

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 0597

E.O. 11652: GDS

TAGS: EALR, ENRG, PINR, EC

SUBJECT: RENE VARGAS, NEW MINISTER OF NATURAL RESOURCES, SEEMS
LIKELY TO WORSEN GOE OIL POLICIES

REF: QUITO 0445

1. SUMMARY: TEXACO-GULF AND OTHER AMERICAN PETROLEUM PRODUCERS WILL PROBABLY CONFRONT TOUGHER GOE POLICIES ON PRICING, MARKETING AND EXPLORATION AS A RESULT OF THE APPOINTMENT OF COLONEL RENE VARGAS AS MINISTER OF NATURAL RESOURCES. THIS TELEGRAM REVIEWS VARGAS' UNPROMISING PERFORMANCE DURING HIS RECENT TWO-YEAR TENURE AS HEAD OF CEPE, THE STATE PETROLEUM CORPORATION, AND ALSO REVIEWS SOME OF HIS UNENCOURAGING PUBLIC STATEMENTS REGARDING OIL POLICY. VARGAS' IMPACT IN GOE PETROLEUM POLICY MAY, HOWEVER, BE RESTRAINED BY THE NEW PRESIDENT OF THE SUPREME COUNCIL OF GOVERNMENT, ADMIRAL POVEDA, AND THE NEW MINISTER OF FINANCE, CESAR ROBALINO. END SUMMARY.

2. VARGAS HAD NO INFLUENCE ON POLICY WHEN HE WAS ASSISTANT MANAGER FOR ADMINISTRATION AT CEPE IN DEC. 1972, WHEN CEPE
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WAS HEADED BY COL. JAIME DUENAS. IN FACT, AT THAT TIME,

VARGAS WAS A PLEASANT AND FREQUENT SOCIAL CONTACT OF EMBASSY OFFICERS.

3. AFTER VARGAS BECAME MANAGER OF CEPE IN FEB., 1974, HE BEGAN TO SPEAK OUT FREQUENTLY ON PETROLEUM POLICY AND TRIED TO STEP UP CEPE ACTIVITIES IN PETROLEUM EXPLORATION. HOWEVER, DURING HIS TWO-YEAR TENURE, CEPE TEETERED ON THE VERGE OF BANKRUPTCY SEVERAL TIMES DUE TO OVERSTAFFING AND FINANCIAL MISMANAGEMENT, EVEN THOUGH THE ONLY EXCLUSIVE CEPE OPERATION REMAINED THE OPERATION OF THE QUITO-DURAN PIPELINE FOR REFINED PRODUCTS (WHICH WAS CONSTANTLY PLAGUED BY TECHNICAL PROBLEMS). CEPE "DRILLED" ONE HIGHLY-PUBLICIZED WELL DURING VARGAS' TENURE; THE WELL WAS ACTUALLY DRILLED BY THE U.S. FIRM CAYMAN, ON A COST-PLUS BASIS, AND IT WAS THE SUBJECT OF EXTENSIVE CONTROVERSY IN GOVERNMENT CIRCLES, BECAUSE IT EITHER COST TWICE AS MUCH AS ANY PREVIOUS CAYMAN WELL OR THE COST WAS PURPOSEFULLY INFLATED BY CEPE. VARGAS' AMBITIOUS EXPLORATION PLANS HAD A DETRIMENTAL EFFECT ON PRIVATE COMPANIES' PETROLEUM EXPLORATION, BECAUSE CEPE RESERVED MANY OF THE MOST PROMISING CONCESSIONS FOR ITS OWN USE. VARGAS ALSO CONSISTENTLY ADVOCATED A HARD LINE ON PRICES, IN ORDER TO GIVE CEPE A LARGER SHARE OF PETROLEUM TAXES: TO FINANCE EXPLORATION VARGAS AND HIS INFLUENTIAL COTERIE WERE INSTRUMENTAL IN OBTAINING 20 CENTS A BARREL FOR CEPE WHEN THE PRICE WAS RAISED 40 CENTS A BARREL EFFECTIVE OCTOBER 1.

4. ON THE MARKETING SIDE, CEPE'S INTERNAL OPERATIONS UNDER VARGAS WERE PLAGUED BY PERIODIC SHORTAGES, WHILE MARKETING ABROAD SUFFERED A SERIOUS SETBACK AS CEPE MAINTAINED ITS HIGH PRICE TO ITS CHILE AND PERU MARKETS LAST JULY WHEN THE GOE LOWERED THE PRICE TO THE CARIBBEAN MARKET: ENAP (OF CHILE) AND PETROPERU LOGICALLY CANCELLED THEIR CEPE CONTRACTS AND RENEGOTIATED A LOWER PRICE. LOCAL SOURCES INDICATE NOW, HOWEVER, THAT CHILE AND PERU ARE AGAIN DISSATISFIED WITH THEIR CEPE CONTRACTS AND ARE LOOKING FOR OTHER SOURCES OF SUPPLY.

5. RELATIONSHIPS BETWEEN TEXACO-GULF AND ITS 25 PERCENT PARTNER CEPE WERE STRAINED DURING VARGAS' TENURE DUE TO CONFIDENTIAL

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CEPE'S INABILITY TO PAY ITS SHARE OF CONSORTIUM OPERATING COSTS, A CONTINUING SERIES OF IRRATIONS SUCH AS CEPE'S REFUSAL TO ABSORB ANY REPAIR COSTS FROM FLOOD DAMAGE TO CONSORTIUM FACILITIES, AND A LONG-STANDING ENMITY BETWEEN VARGAS AND TEXACO ASSISTANT MANAGER RENE BUCARAM.

6. APART FROM VARGAS' UNPROMISING RECORD ON CEPE MANAGER, HIS PUBLIC STATEMENTS HAVE BEEN EVEN MORE DISCOURAGING, AND

IN THEM HE HAS MADE MORE THAN HIS FAIR SHARE OF GAFFES AND MISSTATEMENTS. LAST APRIL 8, THE WIRE SERVICES CARRIED A STORY FROM MEXICO QUOTING VARGAS AS SAYING THAT ECUADOR WAS SEEKING TO NATIONALIZE PETROLEUM PRODUCTION AND EXPEL THE FOREIGN COMPANIES. THE THEN MINISTER OF NATURAL RESOURCES, LUIS SALAZAR, IMMEDIATELY ISSUED A DISCLAIMER SAYING THAT THE GOE WOULD RESPECT FOREIGN INVESTORS. UPON RETURNING FROM MEXICO, VARGAS CLAIMED THAT HE HAD BEEN MISQUOTED, THAT HE HAD SAID "RATIONALIZE" RATHER THAN "NATIONALIZE". LAST JUNE 27, IN A HIGHLY-PUBLICIZED DEBATE WITH TEXACO'S RENE BUCARAM, VARGAS CLAIMED THAT CEPE WAS ABLE TO SELL ALL ITS CRUDE, AND IMPLIED THAT TEXACO-GULF WAS ARBITRARILY WITHHOLDING ITS CRUDE FROM THE MARKET; HE ALSO DENIED THAT VENEZUELA WAS SUBSIDIZING ECUADOREAN SALES TO PETROPERU, EVEN THOUGH IN FACT PRESIDENT RODRIQUEZ HIMSELF SOME WEEKS EARLIER HAD SIGNED AN AGREEMENT FOR THAT DURING A VISIT TO VENEZUELA. LOCAL SOURCES REPORTED THAT THE PRESIDENT WAS ENRAGED AT VARGAS' PUBLIC DENIAL OF THE WELL-KNOWN VENEZUELAN SUBSIDY, AND ON JULY 3 VARGAS MODIFIED HIS STATEMENT TO SOME EXTENT AND SAID THAT, WHILE CEPE HAD BEEN ABLE TO SELL ALL ITS CRUDE, "THIS DOES NOT MEAN THERE ARE NOT PROBLEMS IN SELLING LARGER VOLUMES".

7. VARGAS PUBLICLY CLAIMED LAST JULY THAT TEXACO-GULF HAD SLOWED DOWN EXPORTS EARLIER IN 1975 SOLELY TO BRING PRESSURE ON THE GOE, AND NOT AT ALL BECAUSE OF GOE OVERPRICING OF THE OIL; AND HE ERRONEOUSLY (PERHAPS MENDACIOUSLY) CLAIMED THAT TEXACO-GULF AND CEPE WERE SUBJECT TO IDENTICAL TAXES. IN AN INTERVIEW WITH AN AP CORRESPONDENT DURING THE TEXACO-GULF EXPORT SLOWDOWN, VARGAS CLAIMED THAT CEPE COULD MARKET ALL TEXACO-GULF OIL AND SAID THAT THE COUNTRY COULD NOT AFFORD TO "ENDURE COMPANIES THAT DIDN'T SELL OIL".

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VARGAS ALSO CLAIMED IN THE SAME INTERVIEW THAT CEPE WAS IN A POSITION TO TAKE OVER TEXACO-GULF BY CONTRACTING FOR TECHNICAL ASSISTANCE.

8. VARGAS IS AWARE THAT ECUADOR MUST, FOR SOME LONG TIME TO COME, CONTINUE TO RELY ON OUTSIDE SOURCES OF TECHNICAL ASSISTANCE, BUT HE APPARENTLY FAVORS NON-AMERICAN SOURCES. VARGAS FOR SOME REASON HAS BEEN PARTICULARLY ANXIOUS TO STRENGTHEN HIS TIES WITH THE RUMANIANS. IN A DISCUSSION WITH OFFICIALS OF LONE STAR GAS, WHO OFFERED THEIR EQUIPMENT TO CEPE, VARGAS SAID FLATLY HE PREFERS RUMANIAN EQUIPMENT. HE DID IN FACT EFFECT THE PURCHASE OF ONE RUMANIAN RIG, WHICH LOCAL SOURCES REPORT IS TOTALLY UNSUITED TO ORIENTE OPERATIONS. VARGAS ALSO APPARENTLY ANTICIPATES LARGE-SCALE TECHNICAL ASSISTANCE FROM THE ARGENTINES, ALTHOUGH YPF HAS DONE NOTHING MORE THAN PRELIMINARY SEISMIC STUDIES. VARGAS ALSO LES PROMOTED TRQBNING OF CEPE PERSONNEL WITH THE NATIONAL PETROLEUM COMPANIES OF MEXICO, BRAZIL AND ARGENTINA.

9. ON THE PERSONAL SIDE, VARGAS IS USUALLY AFFABLE AND APPROACHABLE WITH EMBASSY OFFICERS. HOWEVER, HE IS GENERALLY CONFIDENTIAL

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AND STRONGLY DISLIKED BY AMERICAN PETROLEUM EXECUTIVES IN ECUADOR, WITH THE NOTABLE EXCEPTIONS OF EXECUTIVES OF NORTHWEST ENERGY, WHOSE PROJECT FOR NATURAL-GAS EXPLORATION IN THE GULF OF GUAYAQUIL HAS ENJOYED VARGAS' SUPPORT. LOCAL SOURCES COMMENT THAT VARGAS' FINANCIAL POSITION MARKEDLY IMPROVED WHILE HE WAS CEPE MANAGER, BUT NO CONCRETE ACCUSATIONS HAVE BEEN MADE. IN DAO BIOGRAPHIC REPORTING OF TEN YEARS AGO, VARGAS WAS MENTIONED AS A MILITARY OFFICER WHO ALSO WAS A SHREWD BUSINESSMAN WITH A LARGE INVESTMENT IN QUITO REAL ESTATE.

10. IT IS KNOWN THAT THE NEW RULING JUNTA INTENDED

TO RETAIN COL. DUENAS AS MINISTER OF NATURAL RESOURCES, AND THAT AS OF 4 P.M. ON JANUARY 13 HAD INFORMED DUENAS HE WOULD BE RETAINED. WHEN THE LIST OF CABINET APPOINTEES WAS MADE PUBLIC TWO HOURS LATER THAT DAY, HOWEVER, VARGAS' NAME

APPEARED WHERE DUENAS' WAS TO HAVE BEEN. WE UNDERSTAND THAT THIS CHANGE RESULTED FROM A DEMARCHE MADE BY A NUMBER OF COLONELS WHO OPPOSED DUENAS--POSSIBLY FOR PERSONAL RATHER THAN POLICY REASONS, AND POSSIBLY NOT OUT OF ANY AFFECTION FOR VARGAS OR SUPPORT FOR HIS VIEWS ON OIL POLICY. JUNTA HEAD POVEDA REPORTEDLY TOLD INTIMATES THAT HE, POVEDA, IS AWARE OF VARGAS' UNREALISTIC VIEWS ON OIL POLICY, AND INTENDS TO KEEP VARGAS IN CHECK. POVEDA EMPHASIZED IN HIS INAUGURAL PRESS STATEMENTS THAT THERE WOULD BE NO CHANGE IN PETROLEUM POLICY.

11. VARGAS' INFLUENCE IN THE CABINET MAY ALSO BE PARTIALLY OFFSET BY THE NEW MINISTER OF FINANCE, CESAR ROBALINO. ROBALINO AND VARGAS HAVE BEEN ENEMIES SINCE ROBALINO'S RESIGNATION MAY 30, 1975, AS SUBSECRETARY OF NATURAL RESOURCES FOLLOWING AN ARGUMENT WITH VARGAS. ROBALINO HAS TOLD SEVERAL OF OUR CONTACTS THAT THE ARGUMENT HAD TO DO WITH EFFORTS BY ROBALINO TO CURB VARGAS' OVERSTAFFING OF CEPE AND TO CURB CORRUPTION IN CEPE. SINCE THE MINISTER OF FINANCE EXERTS CONSIDERABLE INFLUENCE ON PETROLEUM TAXATION, ROBALINO SHOULD BE IN A POSITION TO COUNTER VARGAS' PETROLEUM PRICING POLICIES.
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